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WAR FOOD ADMINISTRATION  
Food Distribution Administration  
Washington 25, D. C.

October 5, 1943

AUDIT AND FISCAL EXAMINATION DIVISION MEMORANDUM NO. 1

To: Regional Directors and Chiefs of Regional Fiscal Divisions

From: D. J. Harrill, Chief, Audit and Fiscal Examination Division

Subject: Audit and Fiscal Examination Division Functional Chart and Washington--Regional Relationships

In view of the recent approval of the functional chart for the Audit and Fiscal Examination Division (see copy attached) and the issuance of the statement by the Director entitled "Washington--Regional Relationships", under date of September 16, 1943, comments with respect to the chart are presented herewith for your information.

Office of the Chief

To formulate policies and determine procedures for the audit and examination of the records and accounts of the Finance and Accounts Division and of the regional and field offices of the FDA and the FSAC and to conduct and report on all such audits and examinations and to this end to do all of the following:

To conduct special fiscal audits of cooperating agencies; independently or on request of the Chief of the Finance and Accounts Division, to conduct cost studies to determine the legality of making payments of public funds under obligations connected with purchase, diversion or other programs; to review new fiscal operational methods in proposed program dockets, and to recommend any desirable changes to the Chief of the Finance and Accounts Division; to review and, where appropriate, to recommend changes in existing or proposed fiscal accounting systems in the Washington and Field Accounting Offices; to perform the above-outlined functions under the direction of the Deputy Director responsible for administrative management functions, and to submit audit reports to the Director.

Audit Section

To audit the accounts and records of the Washington Finance and Accounts Division and to make fiscal examinations of its procedures; to supervise the audit of the accounts and records and the fiscal examination of the procedures of FDA field offices; to conduct cost studies to determine the legality of making payments of public funds under obligations connected with purchase, diversion or other programs; under the direction of the Chief of the Division, to prepare written reports and recommendations to the Director on fiscal audits and examinations.

The following comments are made to further clarify functions of the aforementioned Audit Section:

To audit the accounts and records  
of the Washington Finance and  
Accounts Division and to make fiscal  
examinations of its procedures.

Fiscal audits performed by employees of this section are of two classes. Periodic fiscal audits are made of the accounts maintained in Washington. These include control accounts of the entire organization. These fiscal audits involve administrative expense accounts and program accounts relating to regular appropriations, in addition to special fund accounts and special loan accounts in connection with Lend-Lease activities relating to the Federal Surplus Commodities Corporation and the Commodity Credit Corporation. As a general rule, a fiscal examination is made at the time the periodic fiscal audit is performed. This entails work in connection with the voucher review activities, cashier and pay roll activities, fiscal collection procedures followed by the Branches and Divisions of the Administration in handling the collection of fees and charges due on account of services rendered under the cooperative agreements. Money of this type goes into a special trust fund for payment of salaries and expenses of certain inspection and grading activities. The examination also requires work in connection with other activities of the Administration as they may relate to fiscal activities. It may be revealed in the fiscal audits and examinations made from time to time that certain of the accounting systems could be revised or abolished altogether, or procedures and systems redesigned to meet the current volume of work. The employees of the Audit Section have the responsibility of recommending changes. In performing a fiscal audit and examination it is necessary for the auditors to confer with representatives of the Office of Budget and Finance of the Department, the Treasury Department, the Lend-Lease Administration, the General Accounting Office, and such other agencies as may be concerned. It is understood, of course, that in order to perform a complete fiscal audit of the Washington office of the Finance and Accounts Division it is necessary to reconcile certain accounts maintained in Washington with information developed through other fiscal audits of the books and records performed in the regional offices by representatives of the Audit and Fiscal Examination Division. The nature of the work of the Finance and Accounts Division and the importance of the Lend-Lease activities make it mandatory that a continuous fiscal audit be made. This is done with the thought in mind that complications may be kept to a minimum at the end of the War when the Administration is called upon for a final accounting. Anyone having knowledge of the difficulties encountered at the close of the last war will appreciate the necessity of this action.

To supervise the audit of the accounts and records and the fiscal examination of the procedures of FDA field offices.

In the handling of this work it is necessary to send top-flight auditors to the field offices for the purpose of conducting fiscal audits and examinations. Upon arrival in one of the offices the Chief of the Fiscal Division of the field office details personnel to the top-flight auditor from the Audit and Fiscal Examination Section to work under his immediate supervision during the course of the audit. As indicated by a Regional Director's Office chart, a Fiscal Division in the field is made up of the Accounting, Voucher Review, Cashier and Pay Roll, and Audit and Fiscal Examination Sections. The fiscal audit and examination work required in the field office is more extensive than that of the Washington office of the Finance and Accounts Division because of the fact that most of the FDA activities are carried on in the field. A continuous fiscal audit of Lend-Lease activities of the field Fiscal Division will be carried on.

The voucher review work in the field offices is one of the largest of the fiscal activities and requires considerable attention and knowledge of existing procedures and regulations. It is necessary among other things for the auditors to observe whether or not the personnel appears to be too technical or too lax in applying the procedures and regulations.

To conduct cost studies to determine the legality of making payments of public funds under obligations connected with purchase, diversion or other programs.

Due to the nature of certain programs administered by The Food Distribution Administration for which payments from Government funds are involved, complete evidence of performance with the terms of contracts or agreements cannot be established except by a fiscal audit of the books and records of the participating associations or commercial concerns. During the operation of the programs claims may be presented and certified for payment on the basis of available evidence submitted with the claims, and at the close of the program fiscal audits are performed by this division for the purpose of verifying figures and voucher statements on which certifications were based. Vouchers covering portions of amounts due may or may not be withheld pending completion of the fiscal audits.

It is believed advisable to point out right here some differences between the cooperating agency fiscal audits and the regulatory audits performed by auditors in the Compliance Branch. Any fiscal audits performed under the supervision of the Audit and Fiscal Examination Division are in connection

with the disbursement of Government funds. The auditors in the Compliance Branch perform audits in connection with activities where no fiscal activities or disbursements of Government funds are involved. As a general rule the "Government fund" fiscal audits are more detailed than the average audit made by public accountants. This is necessary on account of the fact that the contracts with the Government call for certain action on the part of the contractors or cooperating agencies, and before initial payments can be made in some cases and final payments in other cases, it is necessary to determine through the books and records whether or not the terms of the contract have been met. Occasionally complete fiscal cost studies of the operations of some agencies or contractors are made by employees of the Audit and Fiscal Examination Division at the time the regular balance sheet audits are performed. In so doing it may require the time of fiscal auditors for several days. At the conclusion of the fiscal audits it is necessary for the auditors to make recommendations in connection with certain of the contractors' or cooperating agencies' activities for the ensuing year.

In other cases the results of these audits determine that refunds are due the Government, either through provisions incorporated in the contracts, agreements, or through misinformation received from these agencies. These refunds have amounted to as high as several hundred thousand dollars collected from one cooperative agency in connection with one program.

It further may be necessary to point out certain information to the investigators of the Compliance Branch for possible investigation. No steps are taken by the fiscal auditors to perform investigations, except perhaps jointly with an investigator and then only because of the fact that the fiscal auditor is already familiar with the situation requiring investigation.

Ordinarily the auditors examine the accounting systems of the agencies for the purpose of determining whether or not necessary information can be furnished which will determine from a fiscal angle if the terms of the agreement or contract have been met. If the system is not adequate, the auditors recommend records necessary to permit the recording of the additional information.

Under the direction of the Chief of the Division, to prepare written reports and recommendations to the Director on fiscal audits and examinations.

This statement is believed to be self-explanatory with respect to the preparation of reports covering audits made by the section.

It is to be noted that the Audit and Fiscal Examination Sections in the field perform fiscal audits within the region for the Regional Director and in connection with the activities of the region. The Regional Director has charge of these auditors, except when an audit of his office is performed. This type of fiscal audit, of course, is conducted directly by top-flight representatives of the Washington office of the Audit and Fiscal Examination Division. It is believed advisable to point out the fact that some non-recurring fiscal audits are performed jointly at various points in some regions by Washington auditors and regional fiscal office auditors. The recurring fiscal audits for the region are performed by auditors on the regional office. The direction of the program work necessitating the fiscal audit may or may not be supervised by the Regional Director's Office. This would depend, of course, on whether or not the particular activity has been regionalized.

To review all detailed reports prepared by the Washington Audit Section and the regional offices.

This review is performed for the purpose of determining whether or not overall fiscal audit procedures and policies have been followed and whether or not good judgment has been exercised by the keymen in furnishing that part of the procedure necessary to meet local conditions.

To review new fiscal operational methods in proposed program dockets, and to develop and recommend any desirable changes.

In performing work of this type it is possible for the section to recommend changes permitting more expeditious payments and decrease the number of operations and fiscal papers flowing through the Administration with a consequent decrease in cost of operations. If commercial books and records fiscal audits are involved, the fiscal information believed to be necessary for the cooperating agency to accumulate may be reduced to a minimum after the docket has been reviewed by someone thoroughly familiar with fiscal audit requirements. Experience has already taught most of us that it is a lot easier to review these dockets prior to the time they are put into effect and keep trouble to a minimum rather than try to straighten out the difficulties encountered after the program has been in operation for a considerable length of time.

To review, and where appropriate, to recommend changes in proposed accounting systems and voucher review procedures in Washington and the field.

Any accounting procedures and systems for installation in Washington and in the field may be reviewed before or after installation, by the Procedure and Review Section of the Audit and Fiscal Examination Division. It is also necessary to do the same in connection with any procedure regarding voucher review or other fiscal work in Washington and in the field. Any interpretations placed on existing laws, regulations, and administrative rulings in the form of instructions are also handled in the same manner.

To prepare periodic summary reports on the results of fiscal audits and examinations.

Reports of this type are prepared for the management with recommendations as to whether or not certain fiscal procedures followed by the Administration as a whole should be improved. This is particularly true after all Regional fiscal audits have been performed.

Current correspondence and discussions with Regional Office representatives indicate that there is very little, if any, misunderstanding with respect to the Washington and Field activities of the Audit and Fiscal Examination Division. However, in order to preclude the possibility of any misunderstandings in the future, it is requested that each Regional Fiscal Division Chief have the head of the Audit and Fiscal Examination Section prepare a statement of understanding similar to the one covering the Washington Division. It should reflect the general understanding of the Regional Director's office also. The statements for all of the offices will be reviewed, from a national level angle, by the Organization and Procedure Division and this Division.

The Director's statement pertaining to Washington-Regional Relationships issued under date of September 16, 1943, reads in part as follows:

"4. Does the branch have any responsibility for the character and ability of division personnel?

"The responsibility of the branch with respect to the selection of regional division personnel extends to the joint selection by the branch and the Regional Director of key personnel (ordinarily the Chief and Assistant Chief of the division). For other technical and administrative personnel, the branch has the responsibility of setting standards for the character and ability of the persons who are to be employed. These standards should be furnished the Regional Director and the Personnel Division. In recruitment of employees, these two offices should attempt to find personnel who can meet the requirements."

A separate memorandum regarding the standards and ability of the Audit and Fiscal Examination Section employees will be issued by this Division in the very near future.

Approved:

S. D. Howell  
Deputy Director